

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name District Health Department No. 10		County Missaukee	
Fiscal Year End SEPTEMBER 30, 2006		Opinion Date November 30, 2006		Date Audit Report Submitted to State March 22, 2007			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

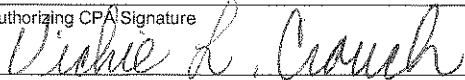
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe) Single Audit Report		<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, P.C.			Telephone Number 517-332-1900	
Street Address 1000 COOLIDGE ROAD			City EAST LANSING	State MI
			Zip 48823	
Authorizing CPA Signature 		Printed Name VICKIE L. CROUCH		License Number 1101013436

DISTRICT HEALTH DEPARTMENT NO. 10
WHITE CLOUD, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
AND
INDEPENDENT AUDITORS' REPORT



Layton & Richardson, P.C.
Certified Public Accountants

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Layton & Richardson, P.C.

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INDEPENDENT AUDITORS' REPORT

To the Board of Health
District Health Department No. 10
White Cloud, Michigan

We have audited the accompanying basic financial statements of the governmental activities of DISTRICT HEALTH DEPARTMENT NO. 10 as of and for the year ended September 30, 2006. These financial statements are the responsibility of the Health Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of District Health Department No. 10, as of September 30, 2006, and the results of its operations for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2006, on our consideration of District Health Department No. 10's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents on pages 3 through 6 and page 22 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise District Health Department No. 10's basic financial statements. The introductory section and supplementary section are presented for purposes of additional analysis and are not required part of the basic financial statements. We have issued, in a separate report dated November 30, 2006, a schedule of expenditures of federal awards for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and it is also not a required part of the basic financial statements of District Health Department No. 10. The supplemental financial information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the basic financial statements taken as a whole. The introductory section, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on it.


Certified Public Accountants

November 30, 2006
East Lansing, Michigan

**District Health Department #10
Management Discussion and Analysis
September 30, 2006**

Financial Highlights

- In all material regards, District Health Department #10 ended the fiscal year in better financial position than it started the year.
- Total revenues for governmental activities totaled \$12,392,379
- Total expenses for governmental activities totaled \$12,150,689
- General Fund added \$241,690 to fund balance. Year end fund balance for the General Fund was \$870,688.

Overview of Financial Statements

- This discussion and analysis are intended to serve as an introduction to District Health Department #10's basic financial statements. District Health Department #10's basic financial statements comprise three components: 1) government-wide financial statements, 2) notes to the financial statements, and 3) combining statement of revenues and expenditures by program. This report also contains other supplementary information in addition to the basic financial statements themselves.
- The financial statements provide a Statement of Net Assets and Governmental Funds Balance Sheet, and a Statement of Revenues, Expenditures and Changes in Fund Balance.
 - The Statement of Net Assets provides information on assets, liabilities and fund balance. A trend of increasing net assets is viewed as a sign of improving condition.
 - The Statement of Revenues, Expenditures and Changes in Fund Balance provides information on program revenues, general revenues and expenditures. The difference between the revenues and the expenditures result in changes in net assets.
- **Government-Wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of District Health Department #10's finances, in a manner similar to a private-sector business.

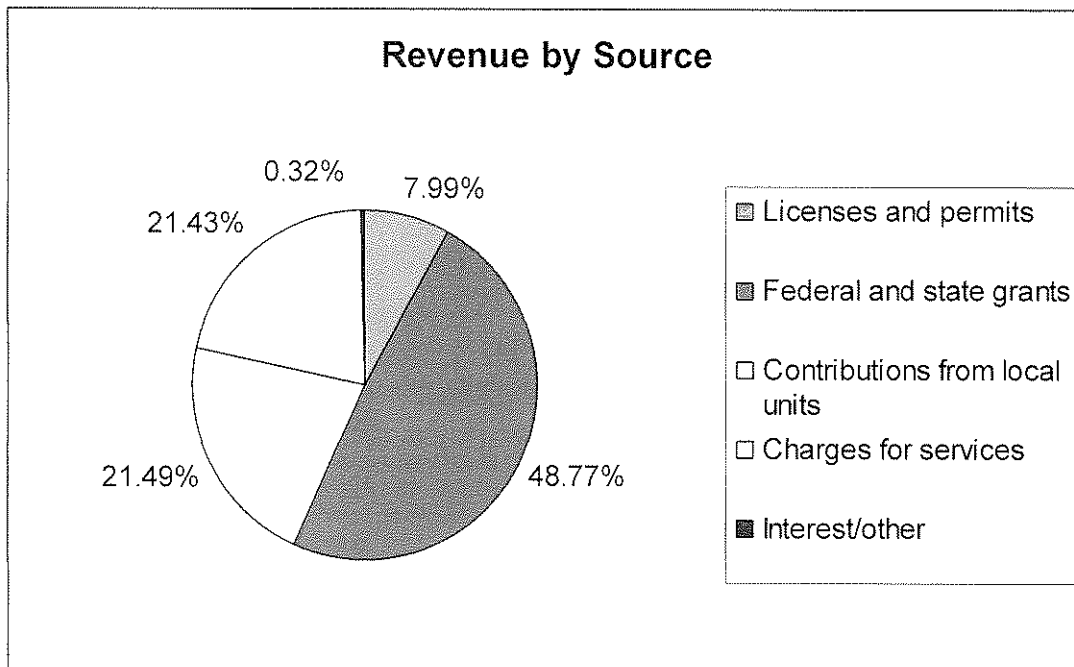
The statement of net assets presents information on all of District Health Department #10's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of District Health Department is improving or deteriorating.

District Health Department #10 adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning District Health Department #10's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information is contained in this report.

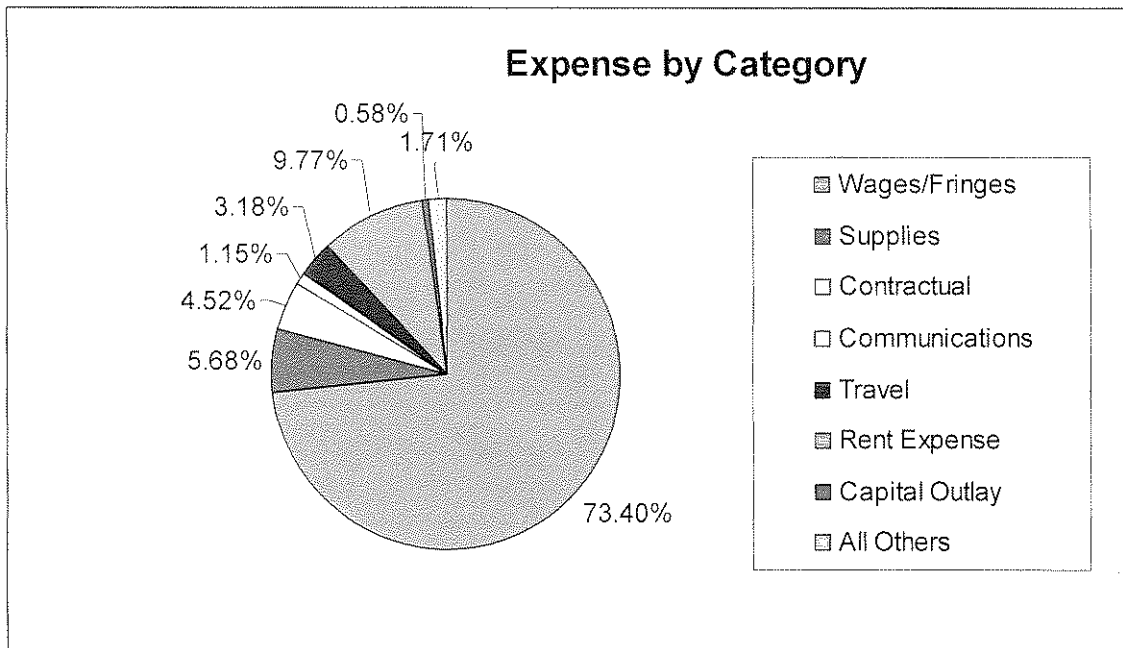
Revenue Sources and Changes

Total revenues from all sources totaled \$12.4 million of which \$6 million was from federal and state grants, \$2.6 million from contributions from local units, and \$2.65 million from charges for services.



Expenditure Overview

Total expenditures totaled \$12.2 million of which \$8.9 million was for wages and fringe benefits. This represents 73% of the total budget.



The following is a condensed summary of financial information for the years ended September 30, 2006 and 2005, respectively.

Condensed Financial Information

Category	2006	2005
Total Assets	1,611,256	1,349,893
Total Liabilities	740,568	720,895
Total Net Assets	870,688	628,998
Operating Revenues	12,352,998	11,916,776
Operating Expenses	12,150,689	11,887,546
Non-operating Revenue	39,381	25,082
Change in Net Assets	241,690	54,312
Ending Net Assets	870,688	628,998

Requests for Information

This financial report is designed to provide a general overview of District Health Department #10's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Administrative Services Director, District Health Department #10, 1049 Newell, P.O. Box 850, White Cloud, MI 49349.

COMPONENT UNIT FINANCIAL STATEMENTS

DISTRICT HEALTH DEPARTMENT NO. 10
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2006

	SPECIAL REVENUE DISTRICT FUND	ADJUSTMENTS	STATEMENT OF NET ASSETS
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 702,998	\$	\$ 702,998
Accounts receivable			
Other (net of allowance of \$8,000)	77,037		77,037
Due from federal and state governments	344,657		344,657
Due from other units	331,428		331,428
Prepaid expense	155,136		155,136
Capital assets		358,339	358,339
	<u> </u>	<u> </u>	<u> </u>
TOTAL CURRENT ASSETS	\$ 1,611,256	\$ 358,339	\$ 1,969,595
	<u> </u>	<u> </u>	<u> </u>
LIABILITIES, EQUITY AND OTHER CREDITS			
LIABILITIES			
Accounts payable	\$ 248,972	\$	\$ 248,972
Accrued expenses	306,761		306,761
Deferred revenue	184,835		184,835
Long-term liabilities			
Accrued sick and vacation		467,098	467,098
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	740,568	467,098	1,207,666
	<u> </u>	<u> </u>	<u> </u>
EQUITY AND OTHER CREDITS			
Invested in capital assets, net of related debt		358,339	358,339
Fund Balance			
Unreserved, undesignated	870,688	(467,098)	403,590
	<u> </u>	<u> </u>	<u> </u>
TOTAL EQUITY AND OTHER CREDITS	870,688	(108,759)	761,929
	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	\$ 1,611,256	\$ 358,339	\$ 1,969,595
	<u> </u>	<u> </u>	<u> </u>

DISTRICT HEALTH DEPARTMENT NO. 10
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

Total fund balances - governmental funds	\$ 870,688
Amounts reported for governmental activities in the statement of net assets are are different because capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$851,756 and the accumulated depreciation is \$493,417.	358,339
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Accrued sick and vacation	<u>(467,098)</u>
Total net assets - governmental activities	<u>\$ 761,929</u>

See accompanying notes to financial statements.

DISTRICT HEALTH DEPARTMENT NO. 10
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DISTRICT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	SPECIAL REVENUE DISTRICT FUND	ADJUSTMENTS	STATEMENT OF ACTIVITIES
EXPENDITURES/EXPENSES			
Salaries, wages and fringe benefits	\$ 8,919,062	\$ 28,094	\$ 8,947,156
Board of Health	27,908		27,908
Office supplies and expenses	689,316	4,201	693,517
Contractual services	549,677		549,677
Communications	139,500		139,500
Travel	386,059		386,059
Insurance and bonds	116,466		116,466
Maintenance and repairs	29,991		29,991
Rent expense	1,187,020		1,187,020
Educational training	33,758		33,758
Depreciation		110,516	110,516
Capital outlay	71,932	(71,932)	
	<u>12,150,689</u>	<u>70,879</u>	<u>12,221,568</u>
PROGRAM REVENUES			
Operating grants	6,042,925		6,042,925
Contributions from local units	2,663,150		2,663,150
Licenses and permits	989,831		989,831
Charges for services	2,657,092		2,657,092
	<u>12,352,998</u>		<u>12,352,998</u>
Net program expense	<u>202,309</u>	<u>(70,879)</u>	<u>131,430</u>
GENERAL REVENUES			
Interest	36,750		36,750
Miscellaneous	2,631		2,631
	<u>39,381</u>		<u>39,381</u>
CHANGES IN NET ASSETS	241,690	(70,879)	170,811
FUND BALANCE, OCTOBER 1	<u>628,998</u>	<u>(37,880)</u>	<u>591,118</u>
FUND BALANCE, SEPTEMBER 30	<u>\$ 870,688</u>	<u>\$ (108,759)</u>	<u>\$ 761,929</u>

See accompanying notes to financial statements.

DISTRICT HEALTH DEPARTMENT NO. 10
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Net changes in fund balances - total governmental funds	\$ 241,690
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.	
Expenditures for capital assets	67,731
Less: current year depreciation	(110,516)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in long-term compensated absences	<u>(28,094)</u>
Change in net assets of governmental activities	\$ <u><u>170,811</u></u>

See accompanying notes to financial statements.

DISTRICT HEALTH DEPARTMENT NO. 10

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

NOTE 1: FINANCIAL REPORTING ENTITY - COMPONENT UNIT

District Health Department No. 10, (the Department) is a municipal authority comprising Lake, Newaygo, Oceana, Missaukee, Mecosta, Manistee, Wexford, Crawford, Mason and Kalkaska Counties. It operates under an appointed Board of Health and provides services to its residents in the area of public health. The Health Department is considered a component unit under the oversight authority of the County of Missaukee. As such, it is an integral part of Missaukee County's reporting entity.

In accordance with the provisions of NCGA Statement 3, and subsequently given authoritative status by the Governmental Accounting Standards Board (GASB) in its Statement No. 1, certain other governmental organizations are not considered to be a part of the Health Department's entity for financial reporting purposes. The criteria established by NCGA for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, there are no other governmental organizations' financial statements included in the financial statements of the Health Department.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of District Health Department No. 10 conform to U.S. generally accepted accounting principles as applicable to governmental units. The summary of the more significant accounting policies are presented to assist the reader in interpreting the financial statements and other data in this report.

A. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government of District Health Department No. 10. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

DISTRICT HEALTH DEPARTMENT NO. 10
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Measurement Focus, Basis of Accounting and Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences, and claims and judgments are recorded only when payment is due.

Interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Health Department.

C. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Health Department as assets with an initial, individual cost of \$1,000 or more and an estimated useful life in excess of one year.

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

DISTRICT HEALTH DEPARTMENT NO. 10
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Capital Assets - Concluded

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements. Accumulated depreciation is reported on the government-wide statement. The straight-line depreciation method is applied over the estimated useful life of fixed assets.

The straight-line depreciation method is used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPRECIABLE LIFE
Office equipment	3-7 years

E. Long-Term Liabilities

In the government-wide financial statement, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Bond discounts are reported as other financing uses. Issuances costs, whether or not withheld from the actual debt received, are reported as debt service.

F. Receivables

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

G. Budgets and Budgetary Accounting

The Health Department follows the procedures described below in establishing the budgetary data reflected in the financial statements.

1. On or about each July 1, the Health Department Administrator submits to the Board of Health a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to October 1, the budget is legally enacted through passage of a resolution.
3. Budgeted amounts are as originally adopted, or as amended by the Board of Health as of September 30, 2006. Individual amendments were not material in relation to the original appropriations which were amended. The budget is adopted on a basis consistent with U.S. generally accepted accounting principles which is the modified accrual basis used to reflect actual results, and consists only of those amounts contained in the formal budget approved and amended by the Board of Health.

DISTRICT HEALTH DEPARTMENT NO. 10
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2006

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Concluded

H. Pension Plan

The Health Department participates in the Michigan Municipal Employees' Retirement Systems for all employees hired prior to October 1, 1997. Contributions to the retirement system are made by the Health Department based on current levels of compensation. The Health Department is liable for all past service costs. It is the Health Department's policy to fund pension costs accrued.

All employees hired on or after October 1, 1997 are covered by a defined contribution plan.

I. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Health Department considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consist of savings accounts and money market accounts.

NOTE 3: DEFERRED COMPENSATION PLAN

The Health Department offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

The Health Department adopted a new 457 plan document, which incorporates the recent changes to the law governing 457 deferred compensation plans. The most notable change in the plan provides that the employer establish a plan level trust in which all amounts deferred must be placed and held for the exclusive benefit of plan participants and their beneficiaries. As a result of this change, the plan assets are no longer subject to claims of the Health Department's general creditors.

All amounts of compensation deferred under the plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are for the exclusive benefit of the employee or their beneficiary.

It is the opinion of the Health Department that the Health Department has no liability for losses under the plan, but does have a duty of care that would be required of an ordinary prudent investor. Therefore, the deferred compensation assets and liabilities have not been included in the Health Department's fiduciary fund.

DISTRICT HEALTH DEPARTMENT NO. 10
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2006

NOTE 4: DEFINED BENEFIT PENSION PLAN

Plan Description

The Health Department participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Health Department employed prior to October 1, 1997. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at P.O. Box 850, White Cloud, Michigan, 49349.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Health Department Board.

Annual Pension Cost

For year ended December 31, 2005, the Health Department's annual pension cost of \$576,907 for the plan was equal to the Health Department's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 2.5 percent per year cost of living adjustments. Both (a) and (b) included an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 36 years.

Trend information.

	FISCAL YEAR ENDED DECEMBER 31,		
	2005	2004	2003
Annual pension cost	\$ 576,907	\$ 492,423	\$ 493,058
Percentage of APC contributed	100%	100%	100%
Net pension obligation			
Actuarial value of assets	12,863,830	12,471,605	12,082,251
Actuarial accrued liability (entry age)	19,592,729	18,759,839	18,453,157
Unfunded actuarial accrued liability	6,728,899	6,288,234	6,370,906
Funded ratio	66%	66%	65
Covered payroll	1,918,813	1,961,698	2,000,396
UAAL as a percentage of covered payroll	292%	321%	318%

DISTRICT HEALTH DEPARTMENT NO. 10
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2006

NOTE 5: DEFINED CONTRIBUTION PLAN

The Health Department provides pension benefits to all of its full-time employees employed on or after October 1, 1998 through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Health Department Board, the Health Department contributes 5 percent of employees' gross earnings and employees contribute up to 3 percent of earnings. The Health Department also matches the employee contribution. In accordance with these requirements, the Health Department contributed \$287,155 during the current year, and employees contributed \$111,195.

NOTE 6: RISK MANAGEMENT

The Health Department is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Health Department has purchased commercial insurance for employee medical benefit claims, participates in the Michigan Municipal Risk Management Authority (risk pool) for claims relating to property loss, torts, errors and omissions, and personal injuries, and purchases insurance from Michigan Physicians Mutual Liability Company for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority (risk pool) program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority, the Authority uses the premiums to pay claims up to the retention limits, the ultimate liability for those claims remains with the Health Department. As of September 30, 2006, the Health Department estimates that its funds on deposit with the Authority are sufficient to cover any outstanding claims. Accordingly, no liability has been recorded.

NOTE 7: CASH

Deposits

Deposits are carried at cost. Deposits of the Health Department are at various banks in the name of the Health Department or held by the County of Missaukee. Act 217, P.A. 1982, authorizes the units of local government to deposit in the accounts of federally insured banks, insured credit unions, and savings and loan associations.

At September 30, 2006, the carrying amount of deposits was \$702,988. The bank balance was \$1,232,197 the amount of \$159,056 was insured by the Federal Deposit Insurance Corporation.

The Health Department has adopted the formal investment policy of Missaukee County – as required by Act 201, P.A. 1943 as amended – that complies with state law. The Health Department has followed this policy.

DISTRICT HEALTH DEPARTMENT NO. 10
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2006

NOTE 8: CAPITAL ASSETS

A summary of changes in the Health Department's capital assets is as follows:

	OCTOBER 1, 2005	ADDITIONS	DELETIONS	SEPTEMBER 30, 2006
Equipment	\$ 784,025	\$ 67,731	\$	\$ 851,756
Less: Accumulated depreciation	<u>382,901</u>	<u>110,516</u>	<u> </u>	<u>493,417</u>
Net Capital Assets	\$ <u>401,124</u>	\$ (<u>42,785</u>)	\$ <u> </u>	\$ <u>358,339</u>

NOTE 9: LONG-TERM DEBT

The following is a summary of the outstanding debt of the Health Department at September 30, 2006:

Compensated Absences

The compensated absences balance represents an estimate of benefits which Health Department employees have a vested right to receive upon termination and/or retirement from employment in accordance with policies established.

Balance, October 1, 2005	\$ 439,004
Changes	<u>28,094</u>
Balance, September 30, 2006	\$ <u>467,098</u>

NOTE 10: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Health Department's actual expenditures and budgeted expenditures for the operating fund has been shown on an activity basis. The approved budget of the Department for this budgetary fund was adopted on an activity basis.

During the year ended September 30, 2006, the Board did incur expenditures in excess of the amounts appropriated as shown within the financial statements.

DISTRICT HEALTH DEPARTMENT NO. 10
NOTES TO FINANCIAL STATEMENTS - Concluded
SEPTEMBER 30, 2006

NOTE 11: OPERATING LEASES

The Department conducts a substantial portion of its operations in facilities rented under agreements classified as operating leases. Rental expenses under these leases for the period ended September 30, 2006 was \$1,187,020.

The following is a schedule by years of minimum future rentals on non-cancelable leases in excess of one year as of September 30, 2006:

YEAR ENDING	AMOUNT
2007	\$ 29,256
2008	29,256
2009	29,256
2010	29,256
2011	29,256
2012-2016	146,280
2017-2021	46,322

NOTE 12: ALTERNATIVE PENSION PLAN

The employees of District Health Department No. 10 have elected not to contribute to and be covered by the Federal Insurance Contributions Act (FICA). Instead, a contribution equal to the FICA rate is made to an alternative pension plan.

REQUIRED SUPPLEMENTARY INFORMATION

DISTRICT HEALTH DEPARTMENT NO. 10
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DISTRICT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>BUDGETED AMOUNTS</u>			VARIANCE FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUES				
Licenses and permits	\$ 1,008,824	\$ 988,824	\$ 989,831	\$ 1,007
Federal and state grants	5,873,507	6,048,518	6,042,925	(5,593)
Contributions from local units	2,663,004	2,663,004	2,663,150	146
Charges for services	2,470,404	2,703,230	2,657,092	(46,138)
Interest	4,000	20,000	36,750	16,750
Miscellaneous	5,000	2,000	2,631	631
	<u>12,024,739</u>	<u>12,425,576</u>	<u>12,392,379</u>	<u>(33,197)</u>
TOTAL REVENUES				
EXPENDITURES				
Salaries, wages and fringe benefits	8,973,274	8,987,213	8,919,062	68,151
Board of Health	29,000	29,000	27,908	1,092
Office supplies and expenses	504,042	598,278	689,316	(91,038)
Contractual services	625,385	604,872	549,677	55,195
Communications	119,582	133,005	139,500	(6,495)
Travel	351,600	438,171	386,059	52,112
Insurance and bonds	118,450	118,450	116,466	1,984
Maintenance and repairs	26,000	29,000	29,991	(991)
Rent expense	1,178,270	1,178,270	1,187,020	(8,750)
Educational training	28,973	38,780	33,758	5,022
Capital outlay	70,163	121,788	71,932	49,856
	<u>12,024,739</u>	<u>12,276,827</u>	<u>12,150,689</u>	<u>126,138</u>
TOTAL EXPENDITURES				
EXCESS OF REVENUES OVER EXPENDITURES		148,749	241,690	92,941
FUND BALANCE, OCTOBER 1	<u>628,998</u>	<u>628,998</u>	<u>628,998</u>	
FUND BALANCE, SEPTEMBER 30	<u>\$ 628,998</u>	<u>\$ 777,747</u>	<u>\$ 870,688</u>	<u>\$ 92,941</u>

SUPPLEMENTARY INFORMATION

DISTRICT HEALTH DEPARTMENT NO. 10

COMBINING STATEMENT OF REVENUES AND EXPENDITURES BY PROGRAM

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	AGENCY	ENVIRONMENTAL HEALTH	PERSONAL HEALTH	M.S.S.
REVENUES				
Licenses and permits	\$	\$ 989,831	\$	\$
Federal and state grants	409,250	936,068	283,900	61,604
Contributions from local units	1,874,027	237,501	349,540	
Charges for services	126,971	111,033	34,940	531,871
Interest	36,750			
Other	334	1,702		
	<u>2,447,332</u>	<u>2,276,135</u>	<u>668,380</u>	<u>593,475</u>
TOTAL REVENUES				
EXPENDITURES				
Salaries, wages and fringe benefits	1,079,542	1,805,941	751,566	568,127
Board of health	27,908			
Office supplies and expenses	70,945	30,637	7,427	6,567
Contractual services	87,535	26,148	254	93,972
Communications	18,375	25,645	7,249	11,298
Travel	35,631	130,666	13,773	27,089
Insurance and bonds	15,033	23,265	6,726	7,234
Maintenance and repairs	5,910	5,340	1,519	1,652
Rent expense	150,837	239,994	67,059	73,510
Educational training	16,504	1,995	540	320
Capital outlay	23,320	1,456	111	
	<u>1,531,540</u>	<u>2,291,087</u>	<u>856,224</u>	<u>789,769</u>
TOTAL EXPENDITURES				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ <u>915,792</u>	\$ <u>(14,952)</u>	\$ <u>(187,844)</u>	\$ <u>(196,294)</u>

I.S.S.	WIC	MCIR	BREAST AND CERVICAL	HEALTH PROMOTION	WISE WOMAN
\$	\$	\$	\$	\$	\$
70,376	1,073,691	175,000	217,750		126,000
624,139	682		98,470	71,501	
				18,163	106,173
	595				
<u>694,515</u>	<u>1,074,968</u>	<u>175,000</u>	<u>316,220</u>	<u>89,664</u>	<u>232,173</u>
514,467	898,128	117,163	271,040	115,235	193,179
5,879	21,868	1,024	8,961	12,714	18,460
61,746	7,977	14,860	15,625	2,396	
8,174	14,147	1,438	7,150	1,530	2,787
32,968	26,509	2,906	9,286	5,264	7,848
6,533	13,425	1,324	3,772	1,660	2,577
1,493	3,084	306	872	372	579
66,955	141,945	14,004	38,624	15,875	25,984
70	3,896	50	35	155	
<u>698,285</u>	<u>1,130,979</u>	<u>153,075</u>	<u>355,365</u>	<u>155,201</u>	<u>251,414</u>
\$ <u><u>(3,770)</u></u>	\$ <u><u>(56,011)</u></u>	\$ <u><u>21,925</u></u>	\$ <u><u>(39,145)</u></u>	\$ <u><u>(65,537)</u></u>	\$ <u><u>(19,241)</u></u>

DISTRICT HEALTH DEPARTMENT NO. 10

COMBINING STATEMENT OF REVENUES AND EXPENDITURES BY PROGRAM - Continued

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	FAMILY PLANNING	CSHCS LOCAL BASED SERVICES	BEACH MONITORING	IMMUNIZATION ACTION GRANT
REVENUES				
Licenses and permits	\$	\$	\$	\$
Federal and state grants	430,863	179,086	20,428	287,416
Contributions from local units		40,228		
Charges for services	123,656			589,106
Interest				
Other				
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	554,519	219,314	20,428	876,522
EXPENDITURES				
Salaries, wages and fringe benefits	486,480	178,852	6,403	570,940
Board of health				
Office supplies and expenses	89,521	2,388	611	273,052
Contractual services	25,433		10,035	100
Communications	7,049	2,756	140	8,072
Travel	14,379	4,371	1,212	6,562
Insurance and bonds	5,887	2,924	113	8,612
Maintenance and repairs	1,588	651	30	1,970
Rent expense	63,413	28,219	1,279	81,888
Educational training	988			1,150
Capital outlay	4,949			459
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	699,687	220,161	19,823	952,805
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ <u>(145,168)</u>	\$ <u>(847)</u>	\$ <u>605</u>	\$ <u>(76,283)</u>

TOBACCO COALITION	HIV RYAN WHITE TITLE II	ABSTINENCE	TEEN PARENTING	HEARING AND VISION	HOPWA
\$ 74,500	\$ 75,000	\$ 188,148	\$ 49,934	\$ 139,362 23,843 11,194	\$ 62,962
<u>74,500</u>	<u>75,000</u>	<u>188,148</u>	<u>49,934</u>	<u>174,399</u>	<u>62,962</u>
52,161	55,849	113,289	34,395	127,490	29,667
754	512	11,765	6,794	2,425	273
	7,816	30,544			22,225
729	759	1,321	1,435	2,081	372
2,467	3,051	5,745	1,482	10,609	574
793	652	1,488	325	2,207	509
175	156	327	72	1,179	107
7,665	7,123	13,735	3,618	21,041	4,362
80		610	185		
				2,439	
<u>64,824</u>	<u>75,918</u>	<u>178,824</u>	<u>48,306</u>	<u>169,471</u>	<u>58,089</u>
\$ <u><u>9,676</u></u>	\$ <u><u>(918)</u></u>	\$ <u><u>9,324</u></u>	\$ <u><u>1,628</u></u>	\$ <u><u>4,928</u></u>	\$ <u><u>4,873</u></u>

DISTRICT HEALTH DEPARTMENT NO. 10

COMBINING STATEMENT OF REVENUES AND EXPENDITURES BY PROGRAM - Continued

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	TENCON	PANDEMIC FLU	MSU NUTRITION PROGRAM	COMMUNI- CABLE DISEASE
REVENUES				
Licenses and permits	\$	\$	\$	\$
Federal and state grants	197,000	48,236		210,717
Contributions from local units				53,271
Charges for services			5,992	
Interest				
Other				
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	197,000	48,236	5,992	263,988
EXPENDITURES				
Salaries, wages and fringe benefits	160,365		4,078	218,358
Board of health				
Office supplies and expenses	2,271	6,890	856	10,279
Contractual services	3,955	6,834		
Communications	5,649		511	2,911
Travel	7,300	176	234	3,690
Insurance and bonds	2,126		6	2,645
Maintenance and repairs	480		5	609
Rent expense	21,272		438	28,288
Educational training			95	135
Capital outlay	983	36,656		
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	204,401	50,556	6,223	266,915
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ <u>(7,401)</u>	\$ <u>(2,320)</u>	\$ <u>(231)</u>	\$ <u>(2,927)</u>

0-5 GRANT NEWAYGO	0-3 GRANT LAKE, MASON OCEANA	CANCER PREVENTION	LEAD HEMOGLOBIN	EMERGENCY PREPAREDNESS	HEAD LICE GRANT OCEANA/ MASON
\$	\$	\$	\$	\$	\$
	129,479	61,251		278,896	12,085
86,818			31,102		
<u>86,818</u>	<u>129,479</u>	<u>61,251</u>	<u>31,102</u>	<u>278,896</u>	<u>12,085</u>
47,677	99,147	26,316	37,788	179,595	8,458
543	4,154	4,809	889	15,706	231
11,010		18,859		13,312	286
484	1,287	533	541	2,158	93
3,749	5,746	1,723	478	10,243	1,998
402	1,056	203	554	2,314	84
95	252	52	125	514	19
4,649	11,919	2,564	5,438	21,910	915
1,380	1,290	500		1,290	
	1,559				
<u>69,989</u>	<u>126,410</u>	<u>55,559</u>	<u>45,813</u>	<u>247,042</u>	<u>12,084</u>
\$ <u><u>16,829</u></u>	\$ <u><u>3,069</u></u>	\$ <u><u>5,692</u></u>	\$ <u><u>(14,711)</u></u>	\$ <u><u>31,854</u></u>	\$ <u><u>1</u></u>

DISTRICT HEALTH DEPARTMENT NO. 10

COMBINING STATEMENT OF REVENUES AND EXPENDITURES BY PROGRAM - Concluded

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	CVD	IMMS FIELD REP	MATERNAL CHILD HEALTH	NMSAS
REVENUES				
Licenses and permits	\$	\$	\$	\$
Federal and state grants	95,172	106,707	70,000	
Contributions from local units				
Charges for services				7,704
Interest				
Other				
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	95,172	106,707	70,000	7,704
EXPENDITURES				
Salaries, wages and fringe benefits	49,331		35,253	5,655
Board of health				
Office supplies and expenses	28,630	857	2,722	59
Contractual services		84,492	363	
Communications	1,302		417	87
Travel	3,727		1,618	312
Insurance and bonds	565		395	81
Maintenance and repairs	132		92	18
Rent expense	6,217	1,200	4,095	818
Educational training	330		2,020	
Capital outlay				
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	90,234	86,549	46,975	7,030
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ <u>4,938</u>	\$ <u>20,158</u>	\$ <u>23,025</u>	\$ <u>674</u>

GIRLS ON THE RUN	5 TO 8 GRANT	STD	LAKE COUNTY 3 TO 5	TOTAL
\$	\$	\$	\$	\$
		21,978		989,831
		13,239		6,042,925
76,170	15,453		7,521	2,663,150
				2,657,092
				36,750
				2,631
<u>76,170</u>	<u>15,453</u>	<u>35,217</u>	<u>7,521</u>	<u>12,392,379</u>
34,602	5,638	33,198	3,689	8,919,062
35,120	98	285	2,340	27,908
	3,900			689,316
378	123	426	93	549,677
1,536	321	637	179	139,500
384	226	366		386,059
79	46	86	5	116,466
4,072	1,643	4,033	419	29,991
	140			1,187,020
				33,758
				71,932
<u>76,171</u>	<u>12,135</u>	<u>39,031</u>	<u>6,725</u>	<u>12,150,689</u>
\$ <u>(1)</u>	\$ <u>3,318</u>	\$ <u>(3,814)</u>	\$ <u>796</u>	\$ <u>241,690</u>



Layton & Richardson, P.C.

Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Health
District Health Department No. 10
White Cloud, Michigan

1000 Coolidge Road
East Lansing, MI 48823

(517) 332-1900
(517) 332-2082 fax
Info@LNRCPA.com

We have audited the financial statements of the governmental activities of District Health Department No. 10, as of and for the year ended September 30, 2006, which collectively comprise District Health Department No. 10's basic financial statements and have issued our report thereon dated November 30, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered District Health Department No. 10's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether District Health Department No. 10's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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However, we noted certain matters that we reported to management of District Health Department No. 10, in a separate letter dated November 30, 2006.

This report is intended solely for the information and use of the management, Board of Health, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Layton & Richardson, P.C.
Certified Public Accountants

East Lansing, Michigan
November 30, 2006



Layton & Richardson, P.C.

Certified Public Accountants

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Board of Health
District Health Department No. 10
White Cloud, Michigan

1000 Coolidge Road
East Lansing, MI 48823

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In planning and performing our audit of the component unit financial statements of DISTRICT HEALTH DEPARTMENT NO. 10 for the year ended September 30, 2006, we considered the Department's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the component unit financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We have reported on the Department's internal control structure in our report dated November 30, 2006. This letter does not affect our report dated November 30, 2006, on the component unit financial statements of District Health Department No. 10.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Department personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Layton & Richardson, P.C.
Certified Public Accountants

East Lansing, Michigan
November 30, 2006

DISTRICT HEALTH DEPARTMENT NO. 10

ACCOUNTING MEMORANDUM

SEPTEMBER 30, 2006

PRIOR YEAR RECOMMENDATIONS

ACCOUNTS PAYABLE

Finding

There was not a separate listing of the year end accounts payable.

Recommendation

We recommend that a computer listing of invoices be prepared on a monthly basis that ties to the general ledger. **This has been implemented.**

CURRENT YEAR RECOMMENDATIONS

CASH RECEIPTS

Finding

There were several numbers missing from the receipt sequence. The Health Department is currently unable to determine if this is user dishonesty or software malfunction.

Recommendation

We recommend that the Health Department purchase a cash receipt system that does not allow the deletion of cash receipts. Once a cash receipt is used, the only way to remove it from the system would be to void it. An employee should not be allowed to void a receipt without a supervisor's approval.

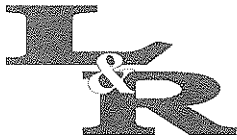
DISTRICT HEALTH DEPARTMENT NO. 10
WHITE CLOUD, MICHIGAN
SINGLE AUDIT REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2006



Layton & Richardson, P.C.
Certified Public Accountants

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Layton & Richardson, P.C.

Certified Public Accountants

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Health
District Health Department No. 10
White Cloud, Michigan

Compliance

We have audited the compliance of DISTRICT HEALTH DEPARTMENT NO. 10 with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2006. District Health Department No. 10's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of District Health Department No. 10's management. Our responsibility is to express an opinion on District Health Department No. 10's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining on a test basis, evidence about District Health Department No. 10's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on District Health Department No. 10's compliance with those requirements.

In our opinion, District Health Department No. 10 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of District Health Department No. 10 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of District Health Department No. 10 as of and for the year ended September 30, 2006, our report thereon dated November 30, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended for the information of the management, the Board of Health and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

East Lansing, Michigan
November 30, 2006

DISTRICT HEALTH DEPARTMENT NO. 10
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2006

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	REVENUE RECOGNIZED	EXPENDITURES
U.S. Department of Health and Human Services			
Passed-through Michigan Department of Community Health:			
Maternal and Child Health	93.994	\$ 236,920	\$ 236,920
Bioterrorism	93.283	326,616	326,616
Immunization	93.268	1,417,448	1,417,448
Crippled Children	93.778	65,561	65,561
Family Planning	93.994	20,882	20,882
Family Planning	93.217	103,718	103,718
Breast and Cervical Cancer	93.283	217,400	217,400
Wise Women Coordination	93.283	95,426	95,426
Abstinence	93.235	18,148	18,148
Supportive Housing	14.241	60,473	60,473
Teen Parent		49,934	49,934
Passed through Kent County Health Department			
0-3 Prevention	93.558	137,000	137,000
HOPWA	14.241	18,021	18,021
U.S. Department of Agriculture:			
Passed-through Michigan Department of Public Health:			
Supplemental Food Program for Women, Infants and Children	10.578	1,002	1,002
	10.557	1,072,689	1,072,689
	66.472	<u>20,428</u>	<u>20,428</u>
		<u>\$ 3,861,666</u>	<u>\$ 3,861,666</u>

DISTRICT HEALTH DEPARTMENT NO. 10
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 1: BASIS OF PRESENTATION

District Health Department No. 10, as a governmental unit, reports on the accrual basis of accounting for financial statement presentation in accordance with U.S. generally accepted accounting principles for governments.

The Schedule of Expenditures of Federal Awards has been reported on the modified accrual basis of accounting which is in accordance with U.S. generally accepted accounting principles for governmental entities. The Schedule of Expenditures of Federal Awards has been presented in this manner because governmental units (federal, state and local) are the predominant users of the Schedule and all reports to them are filed using the modified accrual basis of accounting. For the year ended September 30, 2006, there are no reporting differences between the accounting methods for federal programs.

DISTRICT HEALTH DEPARTMENT NO. 10
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the component unit financial statements of District Health Department No. 10.
2. No reportable conditions relating to the audit of the financial statements are reported.
3. No instances of noncompliance material to the financial statements of District Health Department No. 10 were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported.
5. The auditor's report on compliance for the major federal award programs for District Health Department No. 10 expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs for District Health Department No. 10.
7. The programs tested as major programs included: Supplemental Food Program for Women, Infants and Children CFDA No. 10.557 and U.S. Department of Health and Human Services CFDA No. 93.268.
8. The threshold for distinguishing Types A and B programs was \$300,000.00.
9. District Health Department No. 10 was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS -- MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.